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SUBJECT: ANNOUNCEMENT OF GRAIN AND OIL TRADE AGREEMENTS
WITH THE USSR.

1. WHITE HOUSE ANNOUNCED AT 4:00 PM EDT OCTOBER 20 CONCLU-
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SION OF A LONG-TERM AGREEMENT ON SALES OF US GRAIN TO THE

USSR AND DECLARATION OF INTENT OF THE TWO GOVERNMENTS TO CONCLUDE AN AGREEMENT ON SALE OF SOVIET OIL. TEXT OF BOTH DOCUMENTS MADE PUBLIC AT THAT TIME AND ARE BEING CARRIED IN USIA WIRELESS FILE. BECAUSE IT IS BRIEF AND POSTS MAY BE ASKED FOR COPIES IN OPEC CAPITALS, TEXT OF LETTER STATING INTENTIONS ON OIL AGREEMENT FOLLOWS. BEGIN TEXT. QUOTE DEAR MR. MINISTER: (N. S. PATOLICHEV, MIN. OF FOREIGN TRADE, USSR.) THIS IS TO CONFIRM THE UNDERSTANDING ARISING OUT OF OUR DISCUSSIONS THAT OUR TWO GOVERNMENTS INTEND, TO CONCLUDE AN AGREEMENT CONCERNING THE PURCHASE AND SHIPMENT OF SOVIET OIL. THIS AGREEMENT WILL PROVIDE FOR THE FOLLOWING:

1) THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS WILL, FOR A PERIOD OF FIVE YEARS, OFFER FOR SALE ANNUALLY 10 MILLION METRIC TONS OF CRUDE OIL AND PETROLEUM PRODUCTS.

2) THE GOVERNMENT OF THE UNITED STATES MAY PURCHASE THE CRUDE OIL AND PETROLEUM PRODUCTS FOR ITS OWN USE OR, BY THE AGREEMENT OF THE PARTIES, THE PURCHASE OF CRUDE OIL AND

PETROLEUM PRODUCTS MAY BE MADE BY UNITED STATES' FIRMS.

3) ABOUT 70 PERCENT OF THE TOTAL QUANTITY OFFERED FOR SALE WILL BE CRUDE OIL. THE REMAINDER MAY BE PETROLEUM PRODUCTS, IN PARTICULAR DIESEL OIL AND NAPHTHA.

4) SOME PORTION OF THE CRUDE OIL OR PETROLEUM PRODUCTS WILL BE SHIPPED TO THE UNITED STATES, PARTLY IN TANKERS USED TO TRANSPORT GRAIN FROM THE UNITED STATES TO THE SOVIET UNION.

5) SOME PORTION OF THE CRUDE OIL OR PETROLEUM PRODUCTS MAY BE DELIVERED TO EUROPE OR OTHER AGREED MARKETING AREAS.

6) PRICES FOR CRUDE OIL AND PETROLEUM PRODUCTS WILL BE MUTUALLY AGREED AT A LEVEL WHICH WILL ASSURE THE INTERESTS OF BOTH THE GOVERNMENT OF THE UNITED STATES AND THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS.

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IN ADDITION IT IS FURTHER UNDERSTOOD THAT BOTH GOVERNMENTS WILL WORK FOR THE EXTENSION AND EXPANSION OF THE COOPERATIVE EFFORTS ALREADY UNDERWAY IN THE FIELD OF ENERGY. SUCH EFFORTS WILL BE PARTICULARLY DIRECTED TOWARD THE FULLER APPLICATION OF THE TECHNOLOGICAL CAPABILITY OF BOTH COUNTRIES IN INCREASING ENERGY OUTPUT FROM EXISTING SOURCES AND IN DEVELOPING NEW SOURCES OF ENERGY. SIGNED CHARLES W. ROBINSON,

UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS. END TEXT.

3. PRESIDENTIAL STATEMENT ON GRAIN AND OIL AGREEMENTS
WITH THE USSR. BEGIN TEXT.

THE AMERICAN PEOPLE -- OUR MANY GRAIN FARMING COMMUNITIES, OUR WORKERS, OUR FARMERS, AND OUR CONSUMERS-- WILL BENEFIT FROM THE AGREEMENTSIGNED IN MOSCOW TODAY PROVIDING FOR REGULAR AND ORDERLY SALES OF WHEAT AND CORN TO THE SOVIET UNION DURING THE NEXT FIVE YEARS. UNDER THIS AGREEMENT, THE SOVIET UNION HAS COMMITTED TO PURCHASE SIX MILLION METRIC TONS OF GRAIN PER YEAR REPRESENTING DOLLARS ONE BILLION IN ANNUAL EXPORT EARNINGS. ACCORDINGLY, I AM TODAY TERMINATING THE TEMPORARY SUSPENSION OF SALES OF GRAIN TO THE SOVIET UNION.

THE BENEFITS TO THE AMERICAN ECONOMY ARE THAT WE HAVE:

- OBTAINED A STABLE, LONG-TERM FOREIGN MARKET.
- ASSURED A MORE STABLE FLOW OF PAYMENTS FROM ABROAD.
- ASSURED THE AMERICAN FARMER THAT THE SOVIET UNION WILL BE A REGULAR BUYER FOR GRAIN AT MARKET PRICES.
- INCREASED INCENTIVES FOR FULL PRODUCTION BY THE FARMER.
- FACILITATED THE HIRING OF LABOR, THE PURCHASE OF NEW FARMING MACHINERY, AND THE GENERAL STIMULATION OF AGRICULTURE AND BUSINESS.
- NEUTRALIZED A GREAT DESTABILIZING FACTOR IN RECENT YEARS.
- PROVIDED JOBS FOR AMERICAN TRANSPORTATION WORKERS AND SEAMEN.

THE UNITED STATES DURING THIS HARVEST SEASON CAN REJOICE
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OVER THE BEST CROP IN YEARS.

THE FAVORABLE ECONOMIC IMPLICATIONS ARE OBVIOUS. WE HAVE OBTAINED SOVIET COMMITMENT THAT ADDITIONAL PURCHASE OF GRAIN IN THE CURRENT CROP YEAR WILL NOT BE SO LARGE AS TO DISRUPT THE U.S. MARKET. I HAVE DIRECTED THE DEPARTMENT OF AGRICULTURE TO CONTINUE TO MONITOR CLOSELY EXPORT SALES AND THE ECONOMIC POLICY BOARD/NATIONAL SECURITY COUNCIL FOOD COMMITTEE TO FOLLOW CLOSELY GRAIN MARKET PRICE TRENDS AND RELATED MATTERS.

THE LONG-TERM AGREEMENT SIGNED IN MOSCOW TODAY PROMOTES AMERICAN ECONOMIC STABILITY. IT REPRESENTS A POSITIVE STEP IN OUR RELATIONS WITH THE SOVIET UNION. IN THIS CONSTRUCTIVE SPIRIT, THE TWO GOVERNMENTS HAVE ALSO COM-

MITTED THEMSELVES TO BEGIN DETAILED NEGOTIATIONS ON MUTUALLY BENEFICIAL TERMS FOR A FIVE YEAR AGREEMENT FOR THE PURCHASE OF SOVIET OIL. NEGOTIATIONS WILL START THIS MONTH. END TEXT.

4. FACT SHEET ON GRAIN AND OIL TRADE AGREEMENTS WITH THE USSR. BEGIN TEXT. THE PRESIDENT TODAY ANNOUNCED THE SIGNING OF AN AGREEMENT ON PURCHASES BY THE SOVIET UNION OF U.S. GRAIN. THE GRAIN AGREEMENT RELATES TO FIVE CROP YEARS, COMMENCING OCTOBER 1, 1976 AND RUNNING TO SEPTEMBER 30, 1981. A LETTER OF INTENT WAS ALSO SIGNED TO CONCLUDE AN AGREEMENT ON SALES OF USSR CRUDE PETROLEUM AND PRODUCTS TO THE UNITED STATES.

BACKGROUND

ON SEPTEMBER 9, THE PRESIDENT ANNOUNCED HE WOULD SEND REPRESENTATIVES TO THE SOVIET UNION TO EXPLORE REACHING A LONG-TERM AGREEMENT ON SALES OF GRAIN. NEGOTIATIONS HAVE BEEN CONDUCTED IN MOSCOW BY UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS, CHARLES W. ROBINSON, AS STATED BY OFFICIALS OF THE DEPARTMENT OF AGRICULTURE, THE FEDERAL ENERGY ADMINISTRATION, AND THE DEPARTMENT OF STATE. ON OCTOBER 9, THE PRESIDENT INDICATED THAT DISCUSSIONS INVOLVING THE PURCHASE BY THE UNITED STATES OF SOVIET OIL WERE GOING ON AT THE SAME TIME AS THE GRAIN LIMITED OFFICIAL USE

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NEGOTIATIONS.

LARGELY AS A RESULT OF CLIMATE VARIATION USSR PRODUCTION AND TRADE IN GRAIN CURRENTLY ARE TWO OF THE MOST UNSTABLE ELEMENTS IN THE WORLD GRAIN ECONOMY. DURING THE PAST DECADE, THE USSR ACCOUNTED FOR 80 PERCENT OF THE ANNUAL FLUCTUATION IN WORLD TRADE IN WHEAT. CHANGES IN YEARLY PRODUCTION OF WHEAT IN THE USSR ACCOUNTED FOR 60 PERCENT OF THE ANNUAL FLUCTUATIONS IN WORLD WHEAT PRODUCTION WHILE ANNUAL FLUCTUATIONS IN TOTAL USSR GRAIN PRODUCTION ACCOUNTED FOR 30 PERCENT OF ANNUAL CHANGES IN OVERALL WORLD GRAIN PRODUCTION.

VARIATION IN SOVIET IMPORTS OF GRAIN HAS BEEN PARTICULARLY MARKED IN THIS DECADE. IN THE 1971-72 CROP YEAR TOTAL IMPORTS BY THE SOVIET UNION WERE EIGHT MILLION TONS OF WHICH 2.9 MILLION TONS WERE FROM THE UNITED STATES. IN THE FOLLOWING YEAR, TOTAL IMPORTS WERE 21 MILLION TONS, OF WHICH 13.7 WERE FROM THE UNITED STATES.

THE ESTIMATED TOTAL SUPPLY FOR THE UNITED STATES FOR THE CURRENT CROP YEAR IS 263.5 MILLION METRIC TONS CONTAINING

OF 21.4 MILLION TONS IN STOCKS AND 242.1 MILLION TONS IN NEW PRODUCTION.

HIGHLIGHTS OF GRAIN AGREEMENT

1. COMMITS THE SOVIET UNION TO PURCHASE A MINIMUM OF SIX MILLION METRIC TONS OF WHEAT AND CORN ANNUALLY.
2. PERMITS THE USSR TO PURCHASE AN ADDITIONAL TWO MILLION TONS ANNUALLY WITHOUT GOVERNMENT TO GOVERNMENT CONSULTATION.
3. THE U.S. GOVERNMENT AGREES TO FACILITATE SOVIET PURCHASES UNDER THE AGREEMENT AND NOT TO EXERCISE ITS AUTHORITY TO CONTROL SHIPMENTS OF THESE AMOUNTS,

EXCEPT THAT IT MAY REDUCE THE QUANTITY TO BE SOLD IN ANY ONE CROP YEAR IF THE ESTIMATED TOTAL U.S. GRAIN SUPPLY IS LESS THAN 225 MILLION TONS IN THAT CROP YEAR.
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THE AGREEMENT ALSO PROVIDES FOR CONSULTATIONS BY THE TWO GOVERNMENTS IN ADVANCE OF PURCHASES IN EXCESS OF EIGHT MILLION TONS OF WHEAT AND CORN IN ANY ONE CROP YEAR. SHIPMENT OF GRAIN UNDER THE AGREEMENT IS TO BE IN ACCORD WITH THE US-USSR MARITIME AGREEMENT.

THE SOVIETS HAVE ASSURED US THAT THEIR ADDITIONAL PURCHASES OF GRAIN IN THE CURRENT CROP YEAR WILL NOT BE IN A VOLUME WHICH COULD DISRUPT THE U.S. MARKET.

BENEFITS OF GRAIN AGREEMENT

THIS AGREEMENT REGULARIZES SOVIET PURCHASES FROM THE UNITED STATES. IN DOING SO, IT PROVIDES A NUMBER OF BENEFITS:

- ASSURES U.S. FARMERS A MARKET IN THE USSR FOR X MILLION TONS OF WHEAT AND CORN A YEAR FOR THE NEXT FIVE YEARS.
- THE ADDITIONAL ASSURED DEMAND WILL ASSIST FARMERS IN MAKING THEIR PLANTING DECISIONS.
- REDUCES FLUCTUATIONS IN WORLD MARKETS BY SMOOTHING OUT SOVIET PURCHASES OF U.S. GRAIN.
- PROTECTS U.S. LIVESTOCK PRODUCERS AND CONSUMERS AND OTHER FOREIGN CUSTOMERS FROM LARGE PURCHASES OF U.S. GRAIN BY THE USSR WITHOUT PRIOR CONSULTATION.
- PROVIDES DOLLARS FOUR TO FIVE BILLION IN POTENTIAL FOREIGN EXCHANGE EARNINGS (AT PREVAILING PRICES)

FOR THE U.S. OVER THE NEXT FIVE YEARS.

HIGHLIGHTS OF MARITIME AGREEMENT

U.S. GOVERNMENT REPRESENTATIVES CONCLUDED NEGOTIATIONS IN MID-SEPTEMBER ON THE ESTABLISHMENT OF A FREIGHT RATE FOR U.S.-FLAG SHIPSPARTICIPATING IN THE CARRIAGE OF SOVIET GRAIN.

TERMS OF THE AGREEMENT INCLUDE:

--A MINIMUM U.S. GULF/SOVIET BLACK SEA GRAIN FREIGHT LIMITED OFFICIAL USE

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RATE OF DOLLARS 16 THROUGH DECEMBER 31, 1976. T S
MINIMUM RATE IS GNIFICANTLY IN EXCESS OF THE
CURRENT MARKET PRICE.

-- AN INDEX SYSTEM FOR DETERMINING MONTHLY GRAIN FREIGHT RATES WITH A NEW BASE W CH PROVIDES FOR SUBSTANTIAL-
LY IMPROVED GULF/SOVIET BLACK SEA FREIGHT RATES IN
RELATION TO THE INDEX TRADE (GULF/BELGIUM-;OLLAND).
THIS RELATIONSHIP WAS INCREASED FROM 1.5 TO 1 TO
APPROXIMATELY 3 TO 1.

-- A CREDIT/DEBIT SYSTEM WHICHIN A LOW MARKET PRO-
VIDES FOR THE PAYMENT BY THE SOVIETS OF A FREIGHT
RATE WHICH IS HIGHER THAN THE MARKET RATE AND
SUFFICIENT TO ALLOW A SIGNIFICANT NUMBER OF U.S.-
FLAG VESSELS TO PARTICIPATE IN THE TRADE; AND IN A
STRONG MARKET PROVIDES FOR AN OFFSET. WHEN THE
CREDIT IS ELIMINATED, THE RATES RECEIVED BY U.S.-
FLAG CARRIERS WILL BE DETERMINED UNDER THE NEW
INDEX SYSTEM.

-- A HIGHER MINIMUM DEMURRAGE RATE FOR U.S.-FLAG
VESSELS.

SINCE THE IMPLEMENTATION OF THE NEW FRIEGHT RATE ON
SEPTEMBER 22, 1975, 23 U.S.-FLAG TANKERS HAVE BEEN FIXED
TO CARRY APPROXIMATELY 873,500 TONS OF U.S. GRAIN TO THE
SOVIET UNION DURING THE MONTH OF OCTOBER AND ADDITIONAL
FIXTURES HAVE BEEN MADE FOR NOVEMBER.

OIL AGREEMENT

THE LETTER OF INTENT ON CRUDE OIL AND REFINED PRODUCTS
CONTEMPLATES ANNUAL SALES BY THE USSR OF UP TO TEN MILLION
METRIC TONS (EQUIVALENT TO ABOUT 200,000 BARRELS PER DAY).
PRICES ARE TO BE AGREED UPON.

UNDER THE CONTEMPLATED AGREEMENT, THE UNITED STATES
WOULD HAVE AN OPTION TO PURCHASE CRUDE OIL AND PRODUCTS.
THE PRICES FOR THIS OIL WILL BE MUTUALLY AGREED AT LEVELS
WHICH WILL SATISFY THE INTERESTS OF BOTH COUNTRIES.
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THE USSR IS THE WORLD'S LARGEST OIL PRODUCER. SOVIET
PRODUCTION CURRENTLY AVERAGES ABOUT 9.5 MILLION BARRELS
PER DAY. SOVIET EXPORTS ARE ABOUT 2.3 MILLION BARRELS
OF OIL PER DAY, INCLUDING SOME 1.4 MILLION BARRELS TO
EASTERN EUROPE AND APPROXIMATELY 750,000 BARRELS A DAY
TO WESTERN EUROPE. THE USSR ALSO IMPORTS A SMALL QUAN-
TITY OF OIL, ABOUT 100,000 BARRELS A DAY, LARGELY FROM
IRAQ.

THE 200,000 BARRELS A DAY WE COULD PURCHASE FROM THE
SOVIETS UNDER THIS AGREEMENT IS RELATIVELY SMALL WHEN
COMPARED TO OUR CURRENT DAILY CONSUMPTION OF NEARLY 17
MILLION BARRELS AND IMPORTS OF SOME 6.5 MILLION BARRELS
PER DAY. IT WOULD, HOWEVER, REPRESENT A FURTHER DIVERSI-
CATION OF THE SOURCES OF U.S. OIL IMPORTS. END TEXT.

5. FOR IEA CAPITALS. IEA EMBASSIES SHOULD BRIEF HOST
GOVERNMENT DELEGATES TO IEA GOVERNING BOARD ON STATUS OF
OIL ARRANGEMENT AND LETTER OF INTENT. YOU SHOULD STRESS
THAT WHILE THE AMOUNT OF OIL INVOLVED IS SMALL IN TERMS
OF US TOTAL IMPORTS, IT IS OF INTEREST IN TERMS OF DI-
VERSIFICATION OF SUPPLY, PROVIDED IT IS OBTAINED AT
FAVORABLE PRICES. SUCH AN ARRANGEMENT, IF IT IS CON-
CLUDED, WOULD IN NO WAY INDICATE REDUCED INTEREST IN, OR
COMMITMENT TO, CONSUMER COOPERATION IN THE IEA ON INTER-
NATIONAL ENERGY POLICIES AND STRATEGIES.

6. FOR ADDRESSEES IN GRAIN IMPORTING COUNTRIES. OTHER
IMPORTERS OF US GRAINS, ESPECIALLY DEVELOPING COUNTRIES,
MAY BE CONCERNED ABOUT EFFECTS OF THIS AGREEMENT ON OVERALL
AVAILABILITY OF US SUPPLIES. WE VIEW REGULARIZING SOVIET
PURCHASES OF US GRAIN AS A MAIN BENEFIT FROM THIS AGREE-
MENT FOR OTHER IMPORTERS, SINCE THIS WILL REDUCE UNCERTAIN-
TY ABOUT SOVIET BUYING INTENTIONS. AS FACT SHEET NOTES,
UNEVEN SOVIET DEMAND HAS BEEN MAJOR DE-STABILIZING FACTOR
IN WORLD GRAIN MARKET, ESPECIALLY FOR WHEAT. IN RESPOND-
ING TO THESE AND OTHER POSSIBLE INQUIRIES REGARDING EFFECT
OF GRAIN AGREEMENT ON US ABILITY TO SUPPLY FOOD AID AND ON
US GRAIN RESERVES INITIATIVE, ADDRESSEES SHOULD DRAW ON
FOLLOWING GUIDANCE QUESTIONS AND ANSWERS:
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Q. WHAT IS LIKELY TO BE THE EFFECT OF THIS AGREEMENT ON TRADITIONAL FOREIGN PURCHASERS OF US GRAINS?

A: THE AGREEMENT WILL HAVE A POSITIVE EFFECT ON OUR ABILITY TO MEET THE GRAIN REQUIREMENTS OF OUR TRADITIONAL TRADING PARTNERS. THE COMMITMENT BY THE SOVIET UNION TO PURCHASE A MODERATE AMOUNT OF U.S. GRAINS ANNUALLY INTRODUCES A NEW ELEMENT OF ASSURANCE INTO OUR PRODUCERS' MARKET CALCULATIONS AND WILL ENABLE THEM TO PRODUCE FOR THE SOVIET MARKET ON A REGULAR BASIS. REGULARIZING SOVIET PURCHASES WILL HELP TO ASSURE THAT THE US CAN MEET THE NEEDS OF MORE STABLE PURCHASERS BY EVENING OUT OVERALL EXPORT DEMAND.

Q: WHAT WILL HAPPEN IN YEARS OF POOR U.S. CROPS? WILL THE US BE ABLE TO SELL TO THE SOVIETS, MEET ITS OTHER USUAL OBLIGATIONS AND MAINTAIN THE FLOW OF FOOD AID?

A: THE 225 MILLION TON TOTAL U.S. GRAIN SUPPLY LEVEL SPECIFIED IN THE AGREEMENT IS THE POINT AT WHICH WE THINK THE AMOUNT OF SOVIET PURCHASES MUST BE SUBJECT TO REVIEW. ABOVE THAT LEVEL, WE ARE CONFIDENT THAT THE U.S. CAN MEET ALL OF ITS OBLIGATIONS, INCLUDING FOOD AID. SHOULD OUR TOTAL GRAIN SUPPLY FALL BELOW THIS LEVEL, WE MAY NEED TO PUT A LIMIT ON SOVIET PURCHASES SO THAT THEY ARE IN NO BETTER POSITION, IN TERMS OF ACCESS TO U.S. SUPPLIES THAN OTHER CONSUMERS.

HOWEVER, WE DO NOT BELIEVE U.S. SUPPLY WILL FALL BELOW 225 MILLION TONS. WE HAD A RECORD WHEAT HARVEST IN 1974 AND A NEW RECORD CROP FOR BOTH WHEAT AND CORN THIS YEAR. WE EXPECT U.S. GRAIN PRODUCTION TO CONTINUE TO INCREASE. BECAUSE OF OUR GREATER PRODUCTION WE ANTICIPATE AN INCREASE THIS YEAR OF MORE THAN 10 MILLION TONS IN OUR STOCKS DESPITE RECORD EXPORTS.

Q: WILL WE BE CONCLUDING SIMILAR AGREEMENTS WITH OTHER COUNTRIES?

A: THIS IS A UNIQUE AGREEMENT DESIGNED TO DEAL WITH A LIMITED OFFICIAL USE

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UNIQUE PROBLEM. THE SOVIET UNION IS A LARGE IMPORTER WITH HIGHLY IRREGULAR NEEDS. SINCE NO OTHER COUNTRY IS IN A COMPARABLE SITUATION, WE DO NOT EXPECT TO CONCLUDE

SUCH AN ARRANGEMENT WITH ANY OTHER PURCHASER.

Q: AREN'T WE IN FACT DOING JUST WHAT WE HAVE CRITIZED
OPEC FOR DOING -- MANIPULATING THE EXPORT OF COMMODITIES

FOR POLITICAL ENDS? DO WE INTEND TO USE THIS TECHNIQUE
ON OTHER OF OUR FOOD CUSTOMERS?

A: THE GRAIN AGREEMENT IS NOT A MARKET MANIPULATION; IT IS
RATHER, A MOVE TO REGULARIZE TRADE AND PROTECT THE WORLD
FOOD MARKET FROM DISRUPTIONS. IT WAS NOT DESIGNED TO
SERVE MANIPULATIVE POLITICAL ENDS AND WE CERTAINLY HAVE
NO INTENTION OF USING OUR FOOD EXPORT CAPABILITY AS A
WEAPON AGAINST OTHERS. WE CONTINUE TO SEE FREE INTER-
NATIONAL TRADE AS THE BEST WAY OF FURTHERING OUR BROAD
ECONOMIC AND POLITICAL INTERESTS.

Q: WILL THIS AGREEMENT CAUSE THE PRICE OF GRAIN AND
BREAD TO CONSUMERS TO RISE?

A: NO. THE AGREEMENT IS FOR THE USSR TO PURCHASE ONLY
UP TO ABOUT 4 PERCENT OF FUTURE US PRODUCTION OF WHEAT
AND CORN. THIS SHOULD NOT SIGNIFICANTLY AFFECT PRICE
LEVELS. MORE IMPORTANTLY, IT PREVENTS THE SUDDEN LARGE
PURCHASES WHICH CAN CONTRIBUTE TO RAPID SHORT TERM PRICE
INCREASES. OTHER FACTORS, PARTICULARLY WEATHER, WILL
AFFECT PRICES MORE THAN WILL THIS AGREEMENT.

Q: WHAT PRICE WILL THE USSR PAY? ARE ANY CREDITS IN-
VOLVED?

A: ALL GRAIN SALES TO THE SOVIET UNION WILL CONTINUE
TO BE MADE THROUGH PRIVATE COMMERCIAL CHANNELS. THE
PRICE WILL BE THE MARKET PRICE.

THE AGREEMENT DOES NOT PROVIDE FOR ANY CREDIT ARRANGE-
MENTS BY THE US GOVERNMENT. COMMERCIAL CREDIT MAY, OF
COURSE, BE ARRANGED BETWEEN THE USSR PURCHASING AUTHORITY
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AND PRIVATE FIRMS.

Q: THE GRAIN AGREEMENT MAKES NO MENTION OF GRAIN RESER-
VES. DOESN'T THIS AGREEMENT DIMINISH THE INCENTIVE FOR
THE USSR TO COOPERATE IN AN INTERNATIONAL RESERVE SCHEME.

A: THE GRAIN TRADE AGREEMENT IS DESIGNED ONLY TO MEET
AVERAGE USSR DEMAND. IT DOES NOT PROVIDE ANY ASSURANCE
ABOUT HOW THE SOVIET UNION WILL BE ABLE TO MEET ITS PEAK
DEMAND, SUCH AS IN 1972 AND AGAIN THIS YEAR. SUCH
ASSURANCE REALLY IS ATTAINABLE ONLY THROUGH INTERNATIONAL

COORDINATION OF GRAIN RESERVES, AS THE US HAS PROPOSED IN APPROPRIATE INTERNATIONAL FORA. CONSEQUENTLY, WE DO NOT BELIEVE THAT THIS AGREEMENT REMOVES THE INCENTIVE FOR USSR PARTICIPATION IN AN INTERNATIONAL AGREEMENT ON GRAIN RESERVES.

7. FOR OPEC CAPITALS. YOU MAY GET QUESTIONS ON PRICE IMPLICATIONS OF INTENDED OIL SALES AGREEMENT. FOLLOWING QUESTIONS AND ANSWERS ARE FOR YOUR GUIDANCE:

Q: WHAT EFFECT WILL THE PROPOSED SALES HAVE ON OPEC PRICING?

A: THIS AGREEMENT BY ITSELF IS NOT EXPECTED TO HAVE AN IMMEDIATE IMPACT ON OPEC'S PRICING.

Q: WHAT WILL BE THE PRICE THE US WILL PAY FOR SOVIET OIL? DOES THE US STILL WANT THE USSR TO SELL IT OIL AT A DISCOUNT FROM CURRENT WORLD PRICES?

A: PRICES ARE TO BE AGREED, BUT WE ARE NOT OBLIGATED TO BUY UNLESS THE PRICE IS SUFFICIENTLY LOW TO MAKE IT ADVANTAGEOUS FOR THE U.S. GOVERNMENT TO TAKE THE OIL. WE ARE ONLY INTERESTED IN OIL WHICH IS PRICED LOW ENOUGH TO BE ATTRACTIVE IN OUR MARKETS. INGERSOLL

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